



STATE OF CONNECTICUT

OFFICE OF POLICY AND MANAGEMENT

TESTIMONY PRESENTED TO THE APPROPRIATIONS COMMITTEE

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Office of Policy and Management

Regarding:

Anticipated State Agency Deficiencies for Fiscal Year 2011

Good morning Senator Harp, Representative Geragosian, Senator Debicella, Representative Miner, and distinguished members of the Appropriations Committee, and thank you for the opportunity to offer testimony regarding state agency deficiencies for fiscal year 2011.

Before addressing our projections for agency deficiencies, a brief recap of the overall status of the state budget for FY 2011 may be helpful. On October 20, 2010, OPM released projections indicating an anticipated General Fund surplus of \$300,000. The Office of the State Comptroller certified that surplus on November 1, 2010. While this small surplus is welcome news given the financial challenges the state has experienced over the last two years, please note several caveats. First and foremost, our surplus forecast is based on the assumption that revenues will perform at the level contained in the consensus forecast reached by OPM and the Office of Fiscal Analysis on October 15, 2010. Second, while we project that the FY 2011 General Fund budget is essentially in balance, we note that this balance relies on significant sources of revenue that will not be available in FY 2012, including the planned issuance of Economic Recovery Revenue Bonds, utilization of the FY 2010 surplus, utilization of the remainder of the Budget Reserve Fund, and the final year of enhanced federal stimulus funding. Finally, the surplus estimate assumes that no state resources will be provided to continue benefits

under the Connecticut Energy Assistance Program should federal funding be exhausted before the winter heating season concludes. As you know, on September 22, 2010, the legislature modified the LIHEAP block grant allocation plan to reflect continuation of last year's benefit levels despite the likelihood of reduced federal funding this program year. As a final note, the estimates presented here today are based on the best information available at this time, and may change as the year progresses.

While projected revenues based on the consensus forecast exceed the level programmed in the adjusted budget for FY 2011, we do anticipate shortfalls on the expenditure side of the budget that are the subject of today's meeting. We are currently forecasting deficiencies in eight agencies. In addition to these agency deficiencies, we are also assuming that achievement of \$50 million in savings for Enhancing Agency Outcomes will not occur given that no plan has been presented or endorsed for accomplishing this budgeted lapse. While the Commission on Enhancing Agency Outcomes has until December 31, 2010, to submit a plan, even if a plan is presented we believe it is unlikely that \$50 million in savings can be achieved before the fiscal year ends. We are also projecting \$40 million in unbudgeted adjustments to the resources of the General Fund related to refunds of escheated property and adjudicated claims payments.

Following are our estimates for specific agency deficiencies.

Department of Public Works

A shortfall is anticipated in the Department of Public Works totaling \$6.4 million in the Other Expenses, Management Services, and Rents and Moving Expenses accounts due to the holdbacks programmed to achieve budgeted savings, particularly those for contract reductions and reducing Other Expenses to FY 2007 levels.

Department of Public Safety

The Department of Public Safety is expected to have a shortfall totaling \$8.4 million in the Other Expenses and Fleet Services accounts. The \$5.0 million Other Expenses shortfall is a result of programmed holdbacks that are 21% of the appropriation, which funds utilities, telecommunications, fuel and maintenance costs for motor vehicles and other critical public safety costs. The \$3.4 million Fleet Services shortfall is the result of a programmed holdback that will not be met due to the need to replace aging State Trooper vehicles which have become more costly to repair and maintain than to replace.

Department of Mental Health and Addiction Services

A \$23.1 million shortfall is anticipated in the General Assistance Managed Care account to reflect higher than budgeted caseload and utilization as a result of the conversion of the SAGA population to the Medicaid Low Income Adult (LIA) program, and which is

addressed further as part of the DSS deficiency. In addition, a \$5.3 million Other Expenses shortfall is projected due to holdbacks programmed to achieve budgeted savings.

Department of Social Services

A net deficiency of \$157.5 million is projected in the Medicaid account, primarily as a result of overly aggressive budgeted savings estimates or implementation timelines. Additionally, several initiatives require approval from the federal government, and one is the subject of ongoing litigation, resulting in delays in budgeted savings. The Medicaid expansion to cover low-income adults (the so-called “SAGA waiver”) has also resulted in significantly higher costs than had been budgeted. The caseload has jumped from 44,752 clients in April 2010 to 57,079 clients in October 2010, an increase of 27.5%. Although the expansion was retroactive to April 1, 2010, federal approval was not received until June 21, 2010, and, as a result, detailed caseload and expenditure level data has only recently become available. Both DSS and DMHAS are working to sort out data issues to better understand the growth in the program and to implement measures to manage expenditures. While OPM’s current estimate assumes a DSS deficiency of \$21.7 million related to LIA, with a 7% increase in caseload for the last month alone, we will need to reassess that projection in the coming months. A \$15 million deficiency is anticipated in Other Expenses, largely as a result of the required holdbacks, which represent over 21% of the agency’s Other Expenses appropriation. The vast majority of expenses under this account support key contractual obligations, such as eligibility management and the Medicaid claims payment system, which are required to support the array of programs provided by the department.

Department of Correction

The Department of Correction is forecast to incur a \$12.0 million deficiency in Other Expenses because of the implementation of budgeted holdbacks, which represent 20% of the agency’s Other Expenses appropriation. This account funds food and utility expenses and other costs of running and maintaining the correctional system.

Public Defender Services Commission

The Public Defender Services Commission is anticipated to end the year with a \$2.1 million deficiency: \$0.2 million in Other Expenses, \$0.2 million in the Special Public Defenders-Contractual account, \$1.0 million in the Special Public Defenders-Noncontractual account, and \$0.7 million in the Expert Witnesses account. Approximately \$545,000 of the total shortfall is due to FY 2010 bills that were unpaid even after May 2010 Finance Advisory Committee action to realign funds to enable the Commission to pay its bills.

Commission on Child Protection

A \$2.6 million shortfall is estimated in the Child Protection Commission's Contracted Attorneys account due to increased use of services from contracted attorneys as well as an unbudgeted increase in the rates paid to those attorneys. The agency will need to take action to address the shortfall in order to prevent growth of this deficiency.

DAS-Worker's Compensation Claims

A \$1.0 million deficiency is anticipated in the Department of Administrative Services' Workers Compensation Claims account due to claims costs that exceed the estimates used in developing the budget.

I would like to again thank the committee for the opportunity to present this testimony, and I am happy to answer any questions you may have.